

**NEBRASKA INVESTMENT COUNCIL
MINUTES OF THE MEETING OF
June 3, 2008**

A regular meeting of the Nebraska Investment Council convened at 8:30 a.m. at the Marriott Hotel in Omaha, NE.

Public notice was posted on the Nebraska Public Meeting Calendar on May 13, 2008, and published in the Lincoln Journal Star on May 25, 2008. Ms. Werner-Robertson chaired the meeting and Ms. Dawes recorded the minutes.

MEMBERS PRESENT:

Ms. Gail Werner-Robertson, Chairwoman
Dr. Richard DeFusco
Mr. John Maginn
Mr. John Dinkel
Mr. Norm Riffel
Treasurer Shane Osborn
Ms. Phyllis Chambers

NONMEMBERS IN ATTENDANCE:

Mr. David Bomberger, State Investment Officer
Ms. Kathy Dawes, Council Secretary
Mr. Joe Jurich, Nebraska Investment Council
Mr. Christopher Heinrich, Harding & Shultz
Mr. Kevin Vandolder, Ennis Knupp + Associates
Mr. Chris Riley, Ennis Knupp + Associates
Mr. Brett Nelson, Ennis Knupp + Associates
Mr. Rob Parkinson, Ennis Knupp + Associates
Ms. Heather Christopher, Ennis Knupp + Associates
Mr. Jason Hayes, Deputy State Treasurer
Ms. Rachael Rezabek, Director, College Savings Program
Mr. Jay Steinacher, Union Bank & Trust Company
Mr. Gary Bush, DAS Budget

ADVISE THE PUBLIC THAT THE OPEN MEETINGS LAWS APPLY: 8:31 a.m. to 8:32 a.m. Ms. Werner-Robertson stated that a copy of the Open Meetings Act is located on the side table.

APPROVAL OF THE MINUTES OF THE APRIL 8, 2008 MEETING: 8:32 a.m. to 8:33 a.m. Mr. Maginn moved that the April 11, 2008, draft of the April 8, 2008 meeting be approved. Dr. DeFusco seconded the motion. Ms. Werner-Robertson called for a roll call vote.

VOTING AYE:

Dr. DeFusco
Mr. Maginn
Mr. Dinkel
Mr. Riffel
Ms. Werner-Robertson

The motion carried.

COUNCIL MEMBER BUSINESS: 8:33 a.m. to 8:35 a.m. Ms. Werner-Robertson welcomed everyone and thanked them in advance for arranging their schedules in order to attend next week's, Strategic Planning Session. Ms. Werner-Robertson indicated that the Council would be conducting Mr. Bomberger's annual performance review at the June 10th meeting and asked Council members to review the evaluation form before the meeting. Mr. Bomberger distributed to the Council the meeting books for the June 10, 2008, meeting. Mr. Bomberger stated that the Asset Liability Study and the Asset Allocation Report would be used for next week's asset allocation discussion.

PRIVATE EQUITY FUND PRESENTATION: 8:35 a.m. to 9:15 a.m. Mr. Brett Nelson and Mr. Rob Parkinson reviewed with the Council the 2007 Performance Report included in the meeting book of the NIC's private equity investments. Their presentation included a market overview, portfolio policy objectives, performance, and partnership update. Mr. Nelson indicated that the Council would be provided quarterly performance reports as well as a year-end performance report on the NIC's private equity investments. Mr. Bomberger indicated that he and Mr. Jurich had recently met with The Jordon Company and New Mountain

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Partners. Mr. Bomberger also recently met with Citigroup Venture Capital International Investment and Bridgepoint Capital.

Mr. Nelson and Mr. Parkinson reviewed with the Council Quantum Energy Partners. Quantum Energy Partners is currently offering its fifth fund, Quantum Energy Partners V, L.P. The Fund will make control and non-control investments in companies focused on the exploration and production in the oil and gas sector with a secondary emphasis on the midstream, oil-field service, coal, power, and alternative energy sectors. Mr. Nelson indicated that Ennis Knupp has conducted a thorough qualitative and quantitative assessment of Quantum Energy Partners and the Fund. Mr. Parkinson discussed its evaluation of both the Firm and the Fund and indicated that Ennis Knupp recommends a \$20 million commitment to Quantum Energy Partners V, LP. A copy of the presentation was included in the meeting book.

PRESENTATION BY QUANTUM ENERGY PARTNERS: 9:15 a.m. to 10:10 a.m. Mr. Bomberger introduced Mr. Toby Neugebauer, Co-Founder and Managing Partner and Mr. Sean Twomey, Partner Champlain Advisors, LLC. Their presentation gave an organizational overview of the firm, investment strategy, and objectives. A copy of their presentation was included in the meeting book.

Following the presentation by Quantum, the Council further discussed Quantum Energy Partners and a possible investment in the Fund. After discussion, Mr. Dinkel moved to commit \$20 million to Quantum Energy Partners V, L.P., pending legal review of the Limited Partnership Agreement by the Council's attorney. Mr. Riffel seconded the motion. Ms. Werner-Robertson called for a roll call vote.

VOTING AYE:	Mr. Maginn
	Mr. Dinkel
	Mr. Riffel
	Ms. Werner-Robertson
	Dr. DeFusco

The motion carried.

At 10:10 a.m. the Council took a break and reconvened at 10:30 a.m.

REAL ESTATE UPDATE: 10:30 a.m. to 10:45 a.m. Mr. Bomberger indicated that Mr. Scott Brown was unable to attend today's meeting, but that Ms. Heather Christopher from Ennis Knupp would be updating the Council on the NIC's real estate program and the current market conditions. Ms. Christopher reviewed and distributed copies of the NIC's real estate investment strategies and discussed the current market conditions. Ms. Christopher also reviewed the current commitment to Beacon Capital Strategic Partners V. A copy of the presentation is included in the attachments to the minutes.

PRESENTATION BY BEACON CAPITAL PARTNERS: 10:45 a.m. to 11:30 a.m. Mr. Bomberger introduced Mr. Fred Seigel, President and COO of Beacon Capital Partners and Mr. Bart Molloy, Managing Director, Monument Group. Mr. Seigel's presentation included an overview of the firm, track record, strategy, team, and terms. Mr. Seigel updated the Council on its current commitment in Beacon Capital Strategic Partners V, a value added fund. A copy of the presentation was included in the meeting book.

PRESENTATION BY INVESCO AIM: 11:30 a.m. to 11:50 a.m. Mr. Bomberger introduced Mr. John Cooper, Managing Director, Mr. Gary Wendler, Managing Director, and Mr. Brian Thorp, Institutional Sales Manager. Their presentation included a review of the Invesco Aim portfolio as of April 30, 2008. A copy of the presentation was included in the meeting book.

COLLEGE SAVINGS PLAN UPDATE: 11:50 a.m. to 12:00 p.m. Treasurer Osborn reported that as of March 31, 2008, the Nebraska 529 Program had 162,053 accounts, with assets totaling \$1.95 billion. Treasurer Osborn updated the Council on the State Farm Plan's implementation of the Oppenheimer funds. A copy of the presentation was included in the meeting book.

At 12:00 p.m. the Council took a break and reconvened at 12:15 p.m.

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RISK MODEL PRESENTATION BY ENNIS KNUPP: 12:15 p.m. to 12:40 p.m. Mr. Vandolder and Mr. Riley gave an introductory presentation on the risk model utilized by Ennis Knupp. Discussion on risk modeling will continue at the June 10, 2008, Strategic Planning Session. A copy of their presentation was included in the meeting book.

AUDIT COMMITTEE REPORT: 12:40 p.m. to 12:45 p.m. Mr. Bomberger reported that the NIC's Internal Auditor, Mr. Ray Friesen, has submitted his letter of resignation effective at the end of August. Mr. Bomberger indicated that the Audit Committee had recently met and discussed updating the language used in both the CAFR and Derivatives Policy. Additional information on both will be provided to the Council at a later date.

PRESENTATION BY ENNIS KNUPP: 12:45 p.m. to 1:15 p.m. Mr. Vandolder and Mr. Bomberger discussed with the Council the memo in the meeting book, Traditional Manager Fee Analysis. The memo included a summary of the NIC's traditional investment managers, mandate, current fee level, and fee rank. Ennis Knupp believes that the NIC has favorable fees arrangements in place with nearly all of the marketable security managers.

Mr. Vandolder reviewed with the Council the current agreements the NIC has with Ennis Knupp and the proposed real estate consulting agreement.

REAL ESTATE CONSULTANT DISCUSSION: 1:15 p.m. to 2:00 p.m. The Council requested that Mr. Vandolder and Mr. Riley leave the meeting for further Council discussion regarding the potential real estate consulting agreement with Ennis Knupp. Mr. Bomberger distributed copies of the proposed real estate consulting agreement. The Council discussed the current and proposed services provided by Ennis Knupp, funding and other options available. Mr. Bomberger indicated that the NIC's deficit request for funding real estate consulting services was approved during the last legislative session. The Council requested that Mr. Bomberger contact several of his peers on the arrangements they have for investment consulting services and report back to them on his findings. Mr. Bomberger will also provide the Council fee comparisons of firms offering separate private equity and real estate consulting services. After discussion by the Council, Dr. DeFusco moved to hire Ennis Knupp as the private real estate consultant under the terms set forth in the proposed agreement, subject to confirmation by Mr. Bomberger through an informal investigation that the fees proposed by Ennis Knupp are competitive in the industry. The Council requested that Mr. Bomberger report the results of his investigation to them in writing or by email before signing the contract. Mr. Maginn seconded the motion. Ms. Werner-Robertson called for a roll call vote.

VOTING AYE:

Mr. Dinkel
Mr. Riffel
Ms. Werner-Robertson
Dr. DeFusco
Mr. Maginn

The motion carried.

At 2:00 p.m. the Council took a break and reconvened at 2:15 p.m.

OPERATING INVESTMENT POOL: 2:15 p.m. to 2:20 p.m. Mr. Bomberger distributed a summary of the Operating Investment Pool as of May 30, 2008. Mr. Bomberger reported that next week he would be making a presentation to the University of Nebraska Board of Regents on the Operating Investment Pool. A copy of Mr. Bomberger's presentation was included in the meeting book.

ANNUAL HEALTH CARE TRANSFER: 2:20 p.m. to 2:25 p.m. Mr. Bomberger reviewed the Health Care Endowment Fund, which includes two separate accounts within the Fund (Balance of \$366M as of 3/31/08): the NE Medicaid Intergovernmental Trust Fund (\$176M or 48% of the total fund) and the NE Tobacco Settlement Trust Fund (\$189M, or 52% of the total fund). Per Neb. Rev. Stat. § 71-7611 "The State Treasurer shall transfer fifty-five million seven hundred thousand dollars annually no later than July 15" from the Fund. "The State Investment Officer upon consultation with the Nebraska Investment Council shall advise the State Treasurer" how much to allocate from each of the two components "in order to sustain such transfers in perpetuity." Mr. Bomberger provided a spreadsheet detailing expected cash inflows, cash outflows, and investment returns, which indicated that the annual payment of \$55.7 million appears sustainable.

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Mr. Bomberger recommended that he notify the State Treasurer to transfer 48% of the \$55.7 million annual payment (or up to \$26.7M) from the Nebraska Medicaid Intergovernmental Trust Fund and 52% of the payment (or up to \$29M) from the Nebraska Tobacco Settlement Trust Fund. Mr. Dinkel moved to accept Mr. Bomberger's recommendation. Dr. DeFusco seconded the motion. Ms. Werner-Robertson called for a roll call vote.

VOTING AYE:

Mr. Riffel
Ms. Werner-Robertson
Dr. DeFusco
Mr. Maginn
Mr. Dinkel

The motion carried.

PERB UPDATE: 2:25 p.m. to 2:35 p.m. Ms. Chambers reported that the IT project is complete and that there are big improved differences in the capabilities of the new system compared to the old system. Ms. Chambers reported on the State Patrol Deferred Retirement Option Plan (DROP), which is effective September 1, 2008. DROP is available to members of the Nebraska State Patrol Retirement System. Members who are at least age 50, but less than 60 with 25 years of service may voluntarily enter DROP. By working up to five more years, DROP provides a way for members to receive a lump-sum amount at retirement in addition to an ongoing monthly retirement benefit.

STATE INVESTMENT OFFICER'S REPORT: 2:35 p.m. to 2:50 p.m.

Asset Summary Report: Mr. Bomberger reported current assets under management of over \$14.5 billion. Mr. Bomberger discussed with the Council the updated format of the Asset Summary Report.

IMA's executed since the last meeting: Mr. Bomberger indicated that agreements executed since the last Council meeting were with McKinley Capital Management and Rothschild Realty Managers. Mr. Bomberger reported that Abbott Capital's ACE VI agreement is currently being reviewed. Mr. Bomberger and Mr. Jurich recently attended BlackRock Distressed Mortgage Fund Advisory Board Meeting as well as meeting with current and potential managers in New York. Mr. Bomberger recently traveled to the United Kingdom and met with Baillie Gifford, Heitman, CVCI, and attended the Bridgepoint Europe Annual Investors meeting. Mr. Bomberger along with Mr. Nelson also met with several private equity and private real estate firms while in the UK. Mr. Jurich will be attending the Abbott Capital Private Equity Conference. Ms. Winkler will be attending the Heitman Real Estate Investor Conference and will be taking the CFA Level III exam this month.

Legislation: Mr. Bomberger indicated that LB 992, which instructed the Nebraska Investment Council to divest from Sudanese companies or companies doing substantial business in Sudan did not make it out of committee. LB 1143 which was amended into LB 1147, would have provided funding for a comprehensive review of the NIC's current statutory, regulatory, and organizational structure was vetoed by the Governor.

Action Plan, Conferences, Next Meeting: Mr. Bomberger indicated that the next Council meeting would be June 10, 2008, at Quarry Oaks Golf Club, Ashland, NE, to begin at 8:30 a.m. Mr. Bomberger informed the Council that Ennis Knupp will be hosting its quarterly client education session on July 23rd and 24th at their office in Chicago; any Council member interested in attending should let Mr. Bomberger know.

At 2:50 p.m. Mr. Dinkel moved to adjourn the meeting. Mr. Maginn seconded the motion. Ms. Werner-Robertson called for a roll call vote.

VOTING AYE: Ms. Werner-Robertson
Dr. DeFusco
Mr. Maginn
Mr. Dinkel
Mr. Riffel

The motion carried.


Kathy Dawes, Secretary